TDECU
WEALTH ADVISORS

Your Complete Road Map to Retirement

Table of Contents

Introduction

Your work-life journey has taken you on a long and winding road. Those first interviews, internships, and paychecks brought you to cubicles, standing desks, staff retreats, and maybe even the corner office.

> *"With a long career behind you, the next adventure awaits—retirement.*

TDECU WEALTH ADVISORS

As Americans live longer than at any other time in history, you can expect to have at least 20 years for this next exciting chapter, be it with a long-dormant hobby, a second career, or well-earned leisure.[1] A modern, healthy 65-year-old couple can expect to live as many as an additional 32 years, if not more.

Just as you wouldn't begin a cross-country road trip without your GPS or trusted atlas, you shouldn't approach retirement without a plan. Start simply—make a list of your income, assets, and liabilities.

A picture will emerge of your daily retirement needs, the financial resources required, and the amount of risk you should assume in order to attain them.

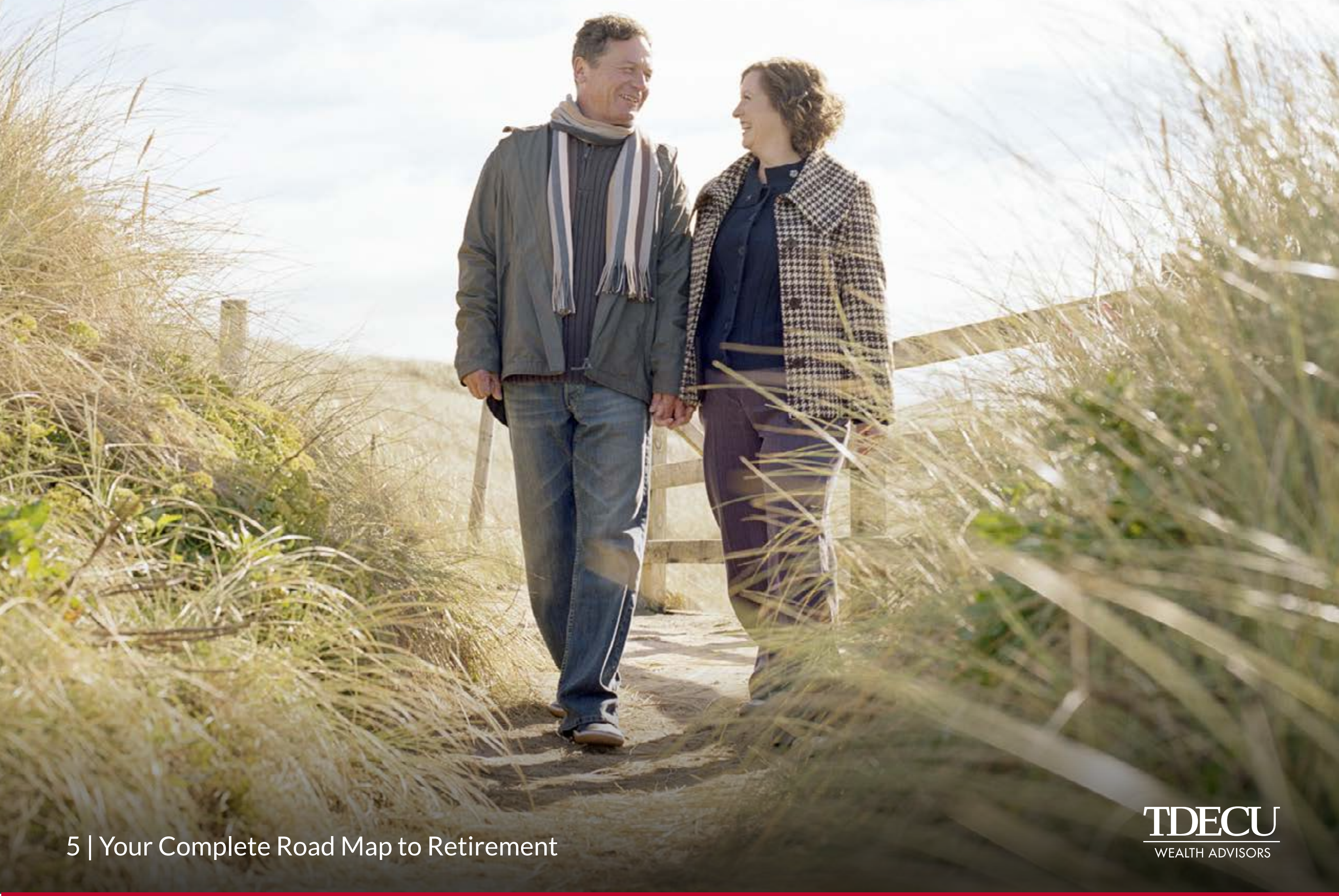
This e-book is a planning tool that will guide you along that path with concrete advice on how to set goals, plan for expenses, and manage your income, assets, and investments.

TDECU WEALTH ADVISORS

What are your retirement goals?

Before you log on to your bank account or look at your portfolio, start with a 30,000-foot view of your retirement goals.

> “*Where do you see yourself in the next 10, 20, or 30 years? What kind of lifestyle do you want? And how will you get there?*



TDECU WEALTH ADVISORS

Here are several more questions that should top your list:

- Will you work in retirement? Live a life of leisure? Or a combination of both?
- Have you been bitten by the travel bug, and do you need to see the world? Or just want to enjoy the house, garden, family, and friends?
- Are you excited to shower your kids and grandkids with presents, trips, and general financial assistance?

The choices you make and dreams you follow will directly impact your savings, spending, and taxes. To better understand this, it's crucial to clearly articulate your retirement goals, which may include:

Keep the money coming

Retirees most often cite this as their top priority (and concern). A diverse portfolio paired with healthy savings is a good first step.

Increase your nest egg

Once the financial picture is solid, you may want to grow your legacy cushion for your children, grandchildren, or favorite charities.

Level up your lifestyle

You may have the potential for income growth that can support a lifestyle improvement and counteract inflation.

Spend it all

This is a potentially risky choice, as you don't know how long you will live, but for some, the sky's the limit.

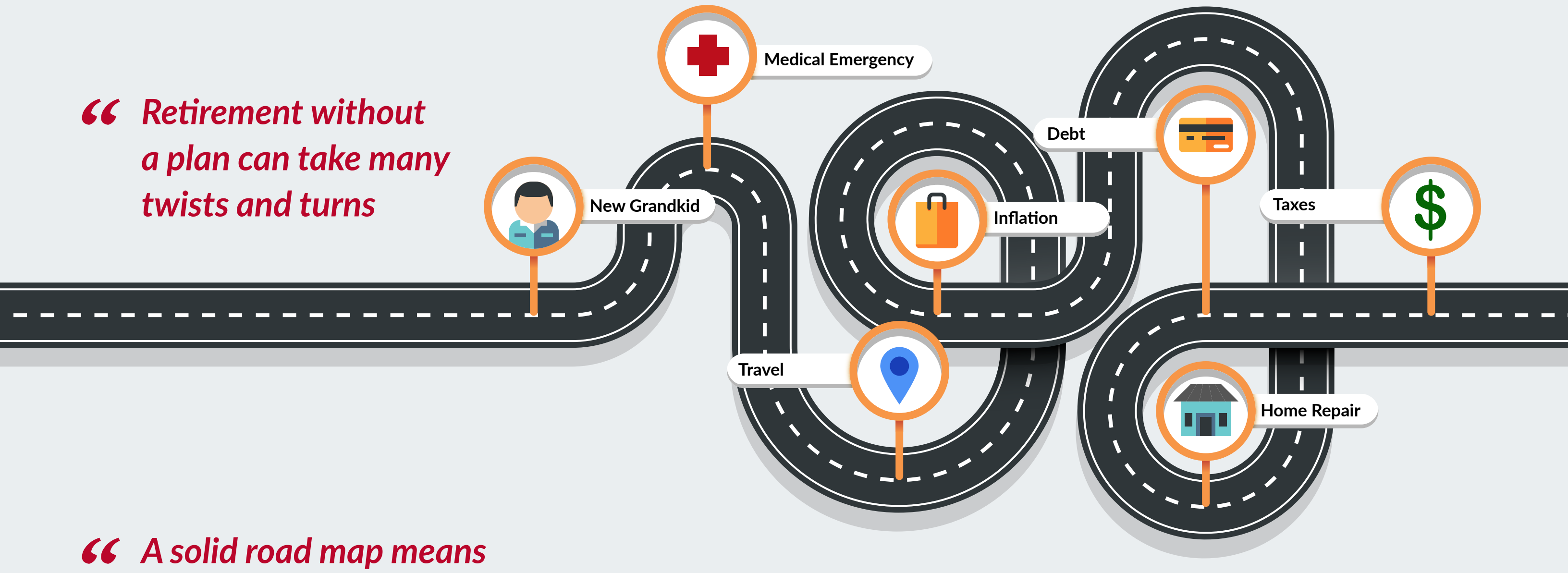
Once you have this menu of choices spread before you, the next step is to prioritize. What goes to the top of the list? What can you live without? Lay out these options, line by line, and put an estimated cost next to each. Add to that your regular living expenses and see where you land. You will likely need to strike some compromises with yourself based on what's most important to your overall happiness and health.

Now that you have your list, it's time to make a plan.

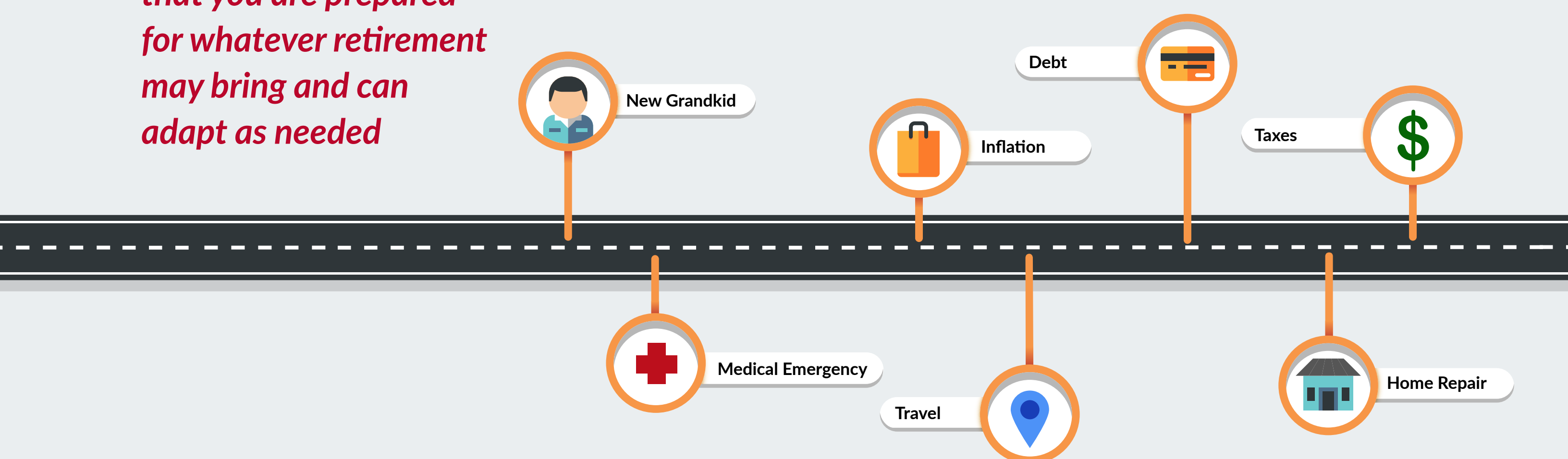
How do you plan for retirement?

A solid plan opens up your world early in the retirement cycle so that you get the maximum benefit from your healthiest years.

“Retirement without a plan can take many twists and turns



“A solid road map means that you are prepared for whatever retirement may bring and can adapt as needed



Your plan should address shifts and allocate appropriate resources to those later years, taking into account the minimum and maximum rates of return that you can expect from your investments.

TDECU WEALTH ADVISORS

> ***In the meantime, there are many ways to grow your resources, even if you've fallen behind.*[2]**

While you're still working full time, take advantage of catch-up contributions (and often an employer-sponsored match) toward your investment accounts, such as a 401(k). This can be particularly helpful in preparation for healthcare costs. While you're at it, automate that weekly or monthly deduction out of your paycheck so that it's out of sight and out of mind.

Go over your list of expenses and begin to cut out those that you no longer need. If your children have moved out, maybe it's time to rent that extra bedroom. If you rarely watch TV, cancel that cable subscription (or cut the cord like the kids do). If you're thinking of a big trip abroad, maybe wait a few years.

Keep a close eye on the calendar as you approach age 65. There are deadlines built into the system that can help greatly if you meet them but also set you back if you miss them.

Be sure to include uncertainty in your plan. Are you prepared for a change in interest rates? Medical emergencies? A dip in the market? Another Great Recession (the last one saw a 12% decrease in personal income)?[3] Stress-test the plan and make sure it's elastic enough to handle these scenarios.

Retirement calculators can be useful tools to get your head around the balancing act between expenses and returns on your investments.[4]

How do you evaluate if you're on track to meet your goals?

When you have a planning tool in place that shows a year-over-year snapshot of income relative to expenses, you will begin to see if you are on track to meet your goals and be able to adjust to unexpected changes.

This tool should include everything that could signal a change in your personal wealth, including health, finances, and the national and global economies.

The best place to start is to calculate your income without investments:

Salary
Will you work in retirement?

Social Security
When should you start collecting? How much will you get? What are the benefits of waiting?

Pension
How much can you expect to receive? Will it increase or decrease over time?

Business and Real Estate
How should you manage these sources of potential passive income, which are subject to market forces?

> *"Each of these income sources presents opportunities that you can tangibly measure. It's essential that you be conversant in their value and impact in order to know how close or far you are from your retirement goals.*

TDECU
WEALTH ADVISORS

How do healthcare costs factor into retirement?

The good news—people are living longer than ever before. The bad news—healthcare costs are higher, and continue longer, than ever before. The average American retires at age 62 (three years before Medicare can kick in), and healthcare inflation continues to outpace general inflation.

Look at what you currently pay for healthcare and use that as a baseline to plan for the future. Brainstorm every eventuality and expense that comes to mind and add each to this list. Be sure to include every trackable cost, including co-pays and coinsurance for dentists, specialists, and general practitioners. No one likes to think about it, but allow for the possibility (and cost) of an assisted living facility, which can run between $82,128-$92,376, depending on where you live.[5]

Here are some tips to make sure healthcare is factored into your retirement expenses:[6]

- Make it part of your overall retirement strategy: The odds are long that your former employer will provide coverage.
- Take advantage of your employer's health savings account (HSA): These are low-risk, tax-free vehicles to save for medical emergencies, deductibles, premiums, and other associated costs. Plus, your employer may even match your contributions.
- Become a Medicare expert: The ins and outs can seem daunting at first, but it's well worth your time (and money) to become your household's knowledge center regarding the program's complex web of costs, benefits, and schedules.
- Know your health risk factors: Not all health risks are created equal, and they don't all cost the same. Your family's health history (and that of your spouse) represents an unknown void of potential costs, and though it's not always pleasant to consider, you need to be aware of what's on the horizon. Read the fine print in your health insurance policy to know what it will and won't cover.
- Consider supplemental health insurance: The up-front additional cost may provide a financial buffer (and a better night's sleep) in the event of a medical emergency or unforeseen diagnosis.

What other expenses should factor into retirement?

You may be comfortable with a frugal lifestyle now, but don't underestimate your future needs. In addition to everyday living expenses, your plan should include less predictable, bigger-ticket items, such as a new car, an updated kitchen, or emergency funds to help your children out of a financial jam.

Some expenses are unavoidable facts of everyday life. Others are more flexible. First, consider your nondiscretionary spending, the fixed costs that affect most retirees:

- Day-to-day living expenses, such as groceries, heat, air-conditioning, gas, and general automotive maintenance.
- Sources of debt, including credit cards, loans, and mortgages.
- Taxes, which—while often lower for retirees—are still a significant fact of life.
- Insurance and healthcare costs, which—as outlined above—will likely become an increasingly large piece of your expense pie.

Factor in discretionary spending, which is different for each person and reflects their individual retirement priorities:

- Travel: This can vary from drives to visit family to more elaborate trips overseas. You'll want to have a budget for that dream trip before booking flights.
- Hobbies: These include genealogy, fly-fishing, or taxidermy, each with its own expense.
- Luxuries: These are especially dependent on individual taste. Anything from a daily three-shot espresso to an annual trip to Disney World to a five-course Michelin-starred dinner may qualify.
- Kids and grandkids: They can be a bottomless well of joy (and money). You want to give them the world. Just make sure it's in your budget.

Other factors to consider:

- Inflation, which can erode savings and investment returns.
- Timing, a tricky factor that involves strategic guesses as to how long you (and your spouse) are likely to live and how much money you'll need over that time.

TDECU
WEALTH ADVISORS

What investment options can help contribute to retirement?

Investments are an invaluable tool to supplement your retirement income and savings.

If you are no longer working, you will likely need to convert your 401(k) into an individual retirement account (IRA) or a similar vehicle.

It would also be prudent to consider additional investment opportunities:

Bonds

A bond is essentially a loan that you provide to an entity such as a company or governmental body over a set period of time at a set interest rate. The issuer eventually pays you back the principal, or you sell the bond on the open market. Bonds are generally considered to be safer investments but provide a lower rate of return.

Stocks

When a company needs to raise revenue beyond what it earns through its day-to-day operations, it splits itself up into "shares" and sells them to investors to raise cash. When you buy these shares, you own a small piece of that company. Stocks as a whole are considered higher in risk than bonds in the short term but often provide higher rates of return in the long run.

Annuities

An annuity is money (a "premium") that you give to an insurance company in exchange for reliable payments over time that aren't subject to changes in the market. Although there are many myths around annuities, they often appeal to investors who want to avoid risk or the chance that they might lose their initial investment.[7]

Other investment options to consider include real estate investment trusts (REITs) and master limited partnerships (MLPs), which each have their own risks and rewards.

The ideal combination of investment products will vary depending on your immediate financial needs and personal taste for risk. The goal should always be to maximize your after-tax total return and not be too concerned as to what exact path you take to get there. Once you've assembled a strong investment portfolio, do your best to leave it alone and let the money work for you.

Investing is not a set-it-and-forget-it project. No matter the mix of investment properties you choose, be sure to evaluate your portfolio's performance at least annually, if not quarterly.[8]

Your plans and priorities can change over time, as can the market, and your portfolio may no longer reflect this new world. Your fund manager may change as the years pass, so make sure to introduce yourself and set up a meeting to be sure that they are as good a fit for your needs as their predecessor. Fees and other related expenses can inch upward over time, and you may need to consider shifting funds to find a better deal.

How can TDECU Wealth Advisors help you meet your goals?

Retirement is the start of your life's next great adventure. While some journeys are best taken solo, many choose to enlist the aid of a trusted financial advisor to act as a sherpa on this epic trip.

The knowledge and time required to create and implement a successful retirement plan can be overwhelming for some. TDECU Wealth Advisors can help. With self-service, full-service, or hybrid options that go well beyond your typical advisor, we can provide expert guidance on how to best meet your retirement goals.

If all you require is a primer on investments, we're happy to point you in the right direction. If you need a more involved partner to be with you through every stage of retirement, we can do that, too. We have no minimum requirements; we just want to help you realize your retirement dreams.

TDECU
WEALTH ADVISORS

SPEAK WITH A WEALTH ADVISOR

This material was created for educational and informational purposes only and is not intended as ERISA, tax, legal, or investment advice. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own separate from this educational material. All investing involves risk, including possible loss of principal.

References

1. https://www.upi.com/CDC-Americans-living-longer-fewer-dying-from-major-diseases/1031498747725/
2. https://blog.tdecu.org/6-ways-to-save-for-retirement-even-if-youre-behind
3. https://taxfoundation.org/great-recession-and-volatility-sources-personal-income
4. https://www.tdecu.org/retirement-calculators
5. https://www.seniorliving.org/lifestyles/nursing-homes/costs/
6. https://blog.tdecu.org/5-ways-to-make-health-insurance-part-of-saving-for-retirement
7. https://blog.tdecu.org/five-common-annuity-myths-to-know-when-saving-for-retirement
8. https://investorjunkie.com/37157/evaluate-investing-goals/